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C O N F I D E N T I A L SECTION 01 OF 02 SANTO DOMINGO 000990

SIPDIS

SENSITIVE

DEPT FOR WHA/CAR, WHA/EPSC, EB/OMA; TREASURY FOR DO:NLEE,  
LLAMONICA, RTOLOUI; PARIS FOR TREASURY ATTACHE

E.O. 12958: DECL: 02/18/2007

TAGS: [DR](#) [EFIN](#)

SUBJECT: DOMINICAN REPUBLIC-PARIS CLUB: AVOIDING BURDEN  
SHARING FOR PRIVATE CREDITORS?

Classified By: Eco-Pol Counselor Michael Meigs. Reason: 1.5 (b) and (d).

1. (SBU) Summary. On February 17 Dominican Presidency official Carlos Despradel asked the Charge to seek U.S. support in an effort to avoid burden sharing for holders of sovereign debt bonds. Having just received the portfolio for Paris Club negotiations, he is deeply concerned about the impact on the country's credit rating. Despradel is willing to travel to Washington next week (February 23-27) to discuss the question. Embassy is sympathetic to his effort to maintain access to financial markets even for a future administration but appreciates the significant downside of backing away from an IMF commitment just days after the standby was approved. End summary.

2. (SBU) On February 17 Technical Secretary of the Dominican Presidency Carlos Despradel called at short notice on the Charge and set forth his analysis for the Paris Club rescheduling. Despradel said that he had just received the assignment and upon examination of the dossiers had concluded that if the country fails to pay coupons due on sovereign debt, the deterioration in its credit rating will be very costly when it faces renewal in 2006 of its issue of USD 500 million in sovereign bonds. ("I do not expect to be in the government at that time, but this is a point of principle for me, a matter of national interest.")

3. (SBU) Talks with the Paris Club are scheduled for March 5 but he finds this gives insufficient time to prepare. Even so, after conferring with the IMF, he is aiming to meet the March 5 date. He asked the Charge to advise U.S. authorities of this plight and to seek U.S. support for continuing to make coupon payments on sovereign bonds, despite the country's formal commitment to comparable treatment for other creditors.

Background

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4. (SBU) In its program for the standby agreement renewed, finally, on February 12, the Dominican Republic aimed at obtaining USD 300 million in debt relief for calendar year 2004, half of which would come from rescheduling of 150 million in Paris Club bilateral debt (originating pre-1984). Despradel says that total pre-1984 debt payments due in 2004 are USD 264 million (USD 153m due to the U.S., 54m to Spain, 40m to Japan, 10m to Germany and 6m to France). He stressed that the Dominican Republic will continue to service all post-1984 debt to Paris Club members. Despradel regrets that the agreement is to obtain only one year of debt relief; he recalled that the 1991 Paris Club rescheduling had been for three years of payments (1991-1993) due on pre-1984 debt, rescheduled over 15 years.

5. (SBU) The rest of the USD 150 million is to come from other creditors, meaning either the holders of sovereign debt or non-Paris-Club official creditors. The country is servicing two issues of sovereign bonds: 27m due in January 2004 was paid within the grace period, 25m is due in March, 27m in July and 25m in September, for a total of USD 104 scheduled for payment for the full year. The three coupon payments remaining in 2004 represent USD 77m. The only other significant non-Paris-Club creditors are Venezuela (20m), Brazil (21m) and Mexico (17m). Despradel comments that each of these official creditors has provided supplier's credits under ALADI or the San Jose accord on petroleum. He believes that it will be very difficult to obtain any relief from any of the three Latin American countries.

6. (SBU) Despradel is hoping that with support from the United States and Spain, the two largest creditors, he will be able to get Paris Club creditors to reschedule the entire USD 264m due in 2004 on pre-1984 debt. He thinks that eventually and with considerable difficulty the Dominicans might get debt relief of perhaps USD 10m due to Latin American countries.

17. (C) The Technical Secretary says that he met in private with President Mejia on the need to comply with IMF conditions (&Using the military will not work, we must show them during the March review that we are in strict compliance8). Despradel says that Mejia subsequently told a full economic cabinet meeting that the administration had to adhere to conditions "down to the last cent." The IMF has prepared a tabular presentation of relevant indicators, to be renewed weekly.

18. (SBU) Despradel said again -- "and this is very important" -- that the GODR will continue to pay all of its post-1984 debt servicing. He reminded Charge that according to the standby, the government will continue to make peso payments for rescheduled debt but that these will go into the Central Bank to reduce its holdings of short-term debt.

19. (SBU) Despradel is willing to travel to Washington next week (February 23-27) to discuss these matters with Treasury and with the IMF and he expects to travel to Madrid for the same purpose. A five-person technical team arrives in Washington today, February 17, for a morning of contacts with the IMF before continuing to New York, where they will consult Dominican legal counsel and J.P. Morgan, the country,s agent for dealing with bondholders.

110. (SBU) Charge and Eco-Pol Counselor took note of Despradel,s arguments and proposal and promised to provide them promptly to Washington authorities. The Charge reminded Despradel of U.S. Treasury misgivings about the Dominican desire to approach the Paris Club as part of the renewed standby; Despradel shrugged, implying that Dominican authorities had not found any other reasonable approach.

Comment

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111. (C) We were dismayed to see Carlos Despradel given this ill-prepared dossier. Finance Secretary Calderon declined the job, saying that he was too involved with electricity sector negotiations. Central Bank Governor Lois Malkun, co-signer with Calderon of the mid-January declaration of intent to seek comparable treatment for other creditors, simply turned it down. We are sympathetic to Despradel,s concern about the impact of Paris Club rescheduling on access to financial markets even for a future administration but appreciate the significant downside of backing away from an IMF commitment just days after the standby was approved.  
KUBISKE